

Message Text

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ORIGIN NEA-10

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TO AMEMBASSY COLOMBO IMMEDIATE

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STADIS

FOR AMBASSADOR FROM SOBER

E.O. 11652: N/A

TAGS: ECON, CE

SUBJECT: INITIAL PAYMENT REQUIREMENT ON PL 480 AGREEMENT

REF: A) STATE 52228; B) COLOMBO 826

1. SPIKE DUBS AND I IN NEA, ART GARDINER AND JOHN MURPHY IN A.I.D., JOHN BUSHNELL IN TREASURY HAVE ALL REVIEWED AND DEBATED INTENSIVELY THE INITIAL PAYMENT REQUIREMENT FOR SRI LANKA SINCE RECEIVING REF B. WE HAVE SOUGHT TO CLARIFY HOW FAR OTHER AGENCIES WILL GO TO ACCOMMODATE SRI LANKA FURTHER, THE BURDEN THE CEYLONENSE WILL BEAR, AND THE IMPLICATIONS OF TITLE I TERMS ON A GLOBAL BASIS. WE HAVE ALSO BEEN SPURRED BY NEVILLE KANAKARATNE'S REPRESENTATIONS TO JOHN MURPHY ON THIS QUESTION ON MARCH 5. THIS INTENSIVE REVIEW HAS LEFT US CONVINCED THAT THE 1.5 PERCENT DOLLAR PAYMENT IS BOTH THE LIMITED OFFICIAL USE

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BEST OPTION OPEN TO US AND THE ONE MOST FAVOR-

ABLE TO SRI LANKA.

2. WE HAVE EXPLORED AT LENGTH THE POSSIBILITIES OF A RUPEE PAYMENT BUT FIND THAT IT IS NOT PRACTICAL. WE HAD ALREADY FOUND IT IMPOSSIBLE TO LOWER THE 5 PERCENT LEVEL AS TREASURY HAD ARGUED THAT WE SEEK NO LESS IN RUPEES THAN WHAT WAS BEING SOUGHT IN DOLLARS FROM ALL OTHER COUNTRIES EXCEPT BANGLADESH. BUT MORE IMPORTANT, TREASURY'S RELUCTANT CONSENT

TO THIS OPTION WAS MORE TENTATIVE THAN EITHER I OR ART GARDINER WHO DEALT WITH TREASURY INITIALLY BELIEVED. A CLOSE LOOK AT SRI LANKA'S NEAR EXCESS CURRENCY STATUS LED TREASURY TO BACK AWAY FROM IT. ON OUR SIDE, THE LAWYERS CONFIRMED THAT THE FEEC RATE WOULD CONSTITUTE THE "HIGHEST EXCHANGE RATE LEGALLY OBTAINABLE IN THE IMPORTING COUNTRY" WHICH THE AGREEMENT REQUIRES US TO ASK WHERE LOCAL CURRENCY PAYMENTS ARE INVOLVED. THE RUPEE COST OF A 5 PERCENT LOCAL CURRENCY PAYMENT WOULD THEREFORE BE APP. RS. 14 MILLION. THIS COST, I THINK YOU WILL AGREE, WOULD REDUCE THE ATTRACTION OF THE LOCAL CURRENCY ROUTE IN ANY CASE.

3. ON THE OTHER HAND A 1.5 PERCENT INITIAL DOLLAR PAYMENT REPRESENTS THE BEST TERMS AVAILABLE TO ANY COUNTRY EXCEPT BANGLADESH. THIS POINT IS ILLUSTRATED BY A BREAKDOWN OF THE INITIAL PAYMENT REQUIREMENT OF EACH FY 76 TITLE I PROGRAM AS A PERCENTAGE OF TOTAL VALUE:

COUNTRY-----DOLLAR PAYMENT-----LOCAL CURRENCY

ISRAEL-----	5-----AND-----	5
SYRIA-----	5-----AND-----	2
JORDAN-----	5-----AND-----	5
ZAIRE-----	5-----AND-----	10
CHILE-----	5-----AND-----	5
HONDURAS-----	5-----AND-----	5
KOREA-----	5-----AND-----	30
ETHIOPIA-----	5-----AND-----	10
PORTUGAL-----	5-----AND-----	10
INDONESIA-----	15-----AND-----	10
HAITI-----	5-----AND-----	5
BANGLADESH-----	0-----AND-----	1

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INDIA-----	5
MOROCCO-----	20
PAKISTAN-----	5
TUNISIA-----	20
GUINEA-----	5
SRI LANKA-----	1.5

4. THE CONGRESSIONAL INTENT TO REQUIRE SOME PAYMENT FOR

ALL TITLE I PROGRAMS IS CLEARLY REFLECTED IN THESE DATA. IN ADDITION, INITIAL PAYMENT TERMS HAVE BEEN HARDENING GRADUALLY FROM A SITUATION OF EXEMPTIONS FOR 5-6 COUNTRIES IN FY 1974 TO NO EXEMPTIONS IN FY 76, RESULTING IN SRI LANKA BEING BROUGHT WITHIN THEIR SCOPE THIS YEAR. AT A TIME OF TIGHT BUDGET CONSTRAINTS THESE PAYMENTS ALSO STRETCH PL 480 RESOURCES TO THE EXTENT THAT SOME PURCHASE COSTS ARE ABSORBED BY TITLE I RECIPIENTS. THE PRO-MSA DIMENSION OF PL 480 WHICH CONGRESS HAS MANDATED AND TO WHICH YOU REFER IS MORE DIRECTLY REFLECTED IN THE 75/25

RESOURCE ALLOCATION FORMULA FAVORING MSAS OVER POLITICAL RECIPIENTS.

5. IN LIGHT OF THIS BACKGROUND I DO NOT BELIEVE THAT WE CAN PRESS PRODUCTIVELY FOR SEVENTH FLOOR ATTENTION TO A FURTHER SOFTENING OF TERMS FOR SRI LANKA.

6. WE HAVE THEREFORE CONCURRED IN A 1.5 PERCENT DOLLAR PAYMENT, A DECISION WHICH WE HOPE COLOMBO WILL WELCOME AS A SUBSTANTIAL IMPROVEMENT ON THE TERMS FIRST PRESENTED TO THE GSL. THE PRESENT PLAN IS FOR JOHN MURPHY TO INFORM KANAKARATNE ONLY WHEN YOU WILL HAVE BEEN OFFICIALLY ADVISED OF THE CHANGE IN NEGOTIATING INSTRUCTIONS, HOPEFULLY WITHIN THE NEXT DAY OR TWO, FOLLOWING INTER-AGENCY CONFIRMATION OF THE NEW INITIAL PAYMENT TERMS. KISSINGER

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